Supreme Court, U.S.
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NO. 94-509

IN THE
SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1994

MDK, INCORPORATED,
Petitioner,

v.

MIKE'S TRAIN HOUSE, and LIONEL TRAINS, INC.,
Respondents.

Petition for Writ of Certiorari to the United States Court of Appeals for the Fourth Circuit

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BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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COUNTERSTATEMENT OF THE CASE

The undersigned respondent, Mike's Train House, Inc. ("Mike's"), is a Maryland corporation, and is a former supplier of toy trains to Lionel Trains, Inc. ("Lionel") as well as a former distributor of Lionel trains. Lionel abruptly terminated its business relations with Mike's in violation of the federal antitrust laws, and particularly Section Two of the Sherman Antitrust Act involving monopolization. Lionel also committed breaches of contract and tortious interference with contractual relations. Mike's sued Lionel in the Federal District Court in Ann Arbor, Michigan, Lionel's home jurisdiction. That lawsuit is presently pending, and is set for trial beginning July 31, 1995.

In that lawsuit, Lionel has contested Mike's definition of the relevant product market. Lionel contends that the relevant market is all toy and scale model trains, of any gauge (such a N, Z, O, G, S, Standard gauge and HO),[1] and that therefore Lionel's market share is less than required for monopoly power. Mike's, in contrast, claims that the relevant product market is defined as the "O" gauge market (including "O-27"), in which Lionel clearly has monopoly power.

To gather empirical data to test these contentions, Mike's economists, including a Professor of Economics at Oberlin College, Dr. James Zinser and a Senior Economic

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[1]These refer to the widths of track. O gauge trains will not run on HO track, which is only one-half as wide, nor on N track, which is smaller still, and so forth. Trains made for each gauge will only operate on that particular gauge.

Counselor at DRI/McGraw Hill, Dr. Lawrence Chimerine, have sought to gather sales, pricing and cost data from various toy and scale model train manufacturers in the various gauges. This data will permit the economists to perform a "cross-elasticity of demand" study, which study is one of the tools used by economists to determine how the relevant product market should be defined.

Accordingly, Mike's served subpoenas under Fed.R.Civ.P. 45 upon a number of toy and model train manufacturers in the United States to gather the data to permit the independently retained economists to perform their statistical tests. In each case, Mike's promised the manufacturer strict confidentiality of the materials, by way of a confidentiality protective order under Fed.R.Civ.P. 26(c)(7) to restrict the data to the independent economists.

Many manufacturers voluntarily complied with the subpoenas, and, through their respective counsel, entered into confidentiality agreements whereby they provided the data. Several manufacturers in New Jersey challenged the subpoenas, but the Federal District Court in New Jersey overruled their objections and ordered the data produced, subject to confidentiality restrictions. The manufacturers then complied.

MDK, Inc. ("MDK"), the petitioner herein, is a toy train manufacturer located in North Carolina. It is an important manufacturer to the economists' study, because it competes with Lionel in the "O" gauge market.

In July 1993, Mike's subpoenaed MDK's data, by a subpoena properly served upon MDK in its place of business in North Carolina. MDK sought to quash the

subpoena. Magistrate Judge Trevor Sharp of the United States District Court for the Middle District of North Carolina, after an extensive oral argument, and consideration of the affidavit tendered by Dr. Zinser as to the need for the material, ordered on July 28, 1993 that MDK should produce the materials. He also ordered that MDK should be protected by a very strict confidentiality protective order, to protect against the public disclosure of MDK's business information. His opinion is set forth at 11a-14a. MDK lodged objections to this Order. United States District Judge Richard C. Erwin affirmed Magistrate Judge Sharp's Order on August 17, 1993.

MDK and Mike's continued to negotiate the terms of the confidentiality order, pursuant to Magistrate Judge Sharp's Order. Mike's and MDK have agreed to virtually all of the terms of that order.

MDK never refused to comply with Magistrate Judge Sharp's Order of July 28, 1993. It did not hold itself in contempt of either the Magistrate Judge's Order, nor the Order of affirmance by Judge Erwin.

Rather, it sought to appeal Judge Erwin's affirmance to the United States Court of Appeals for the Fourth Circuit. In an opinion decided June 22, 1994, the Fourth Circuit dismissed the appeal for lack of an appealable order. 1a-10a. It is that decision as to which MDK now seeks a Writ of Certiorari.

The Fourth Circuit held there was no appellate jurisdiction, following a long line of cases holding that courts of appeal lack jurisdiction to review orders compelling discovery of nonparties. 10a. The court was

unpersuaded that *Cohen v. Beneficial Industrial Loan Corp.*, 337 U.S. 541 (1949), and the collateral order doctrine set forth therein, conferred appellate jurisdiction in these circumstances. 6a. The Fourth Circuit held:

> Courts have long recognized that a party sufficiently exercised over a discovery order may resist that order, be cited for contempt, and then challenge the propriety of the discovery order in the course of appealing the contempt citation. (citations omitted).

8a. It is this well-reasoned determination as to which MDK seeks review by this Court.

SUMMARY OF ARGUMENT

MDK's Petition for Writ of Certiorari should be denied. MDK did not hold itself in contempt by refusing to comply with the subpoena when ordered to do so. The Fourth Circuit correctly held it did not have appellate jurisdiction.

ARGUMENT

What MDK is seeking by its Petition is to have this Court overrule its decision in *Alexander v. United States*, 201 U.S. 117 (1906). In that decision, this Court held that, where, as here, a third party such as MDK is ordered to produce documents under a subpoena, "the order to testify or to produce is not appealable as a final decision, but that if the witness refuses to obey the subpoena, an

order imposing a contempt penalty is appealable." 9 *Moore's Federal Practice*, ¶110.13[2], p. 123 (1994). *See also*, Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* §3914.24, p. 174 (1992) (the discovery ruling is not final if a plausible alternative is possible through disobedience and contempt). Here, MDK did not hold itself in contempt. Rather, it merely sought to appeal an unappealable order.

The Tenth Circuit briefly endorsed an exception to *Alexander* in circumstances where there was a "trade secret" nature to the materials sought. *Covey Oil Co. v. Continental Oil Co.*, 340 F.2d 993 (10th Cir.), *cert. denied*, 380 U.S. 964 (1965). However, the Tenth Circuit subsequently abandoned that decision:

> In *F.T.C. v. Alaska Land Leasing, Inc.*, 778 F.2d 577 (10th Cir. 1985), the Tenth Circuit read the Supreme Court's decision in *Ryan* as rejecting the basis for *Covey Oil*.

9 *Moore's Federal Practice* ¶110.13[2], p. 126 note 12.

Indeed, as stated in Wright, Miller & Cooper, "the general rule persists that appeal cannot be taken from an order granting discovery in an ancillary proceeding." Wright, Miller & Cooper, *Federal Practice and Procedure: Jurisdiction 2d* §3914.24, p. 174 and note 3 (citing *F.T.C. v. Alaska Land Leasing, Inc., supra*).

MDK now seeks to have this Court stand matters on its head, and declare *Covey Oil* to be the law of land, although no circuit has followed it, its own Tenth Circuit

has abandoned it, and it conflicts directly with *Alexander*. Moreover, adherence to *Covey Oil* would open the floodgates of federal jurisdiction, as every routine order to comply with a subpoena would become immediately appealable to every Court of Appeals.

Finally, what Mike's has subpoenaed from MDK are not "trade secrets." They are merely the routine business information that every company in the United States maintains as a matter of course: its sales, revenue, and costs of goods sold for certain past years. To be sure, MDK, as a private company, has a legitimate interest in maintaining the privacy of its records. No past, present, or future business plans are being sought. Rather, only historical information on sales, revenue and costs of toy trains are being sought.[2] Under the confidentiality protective order that has been substantially agreed to, (with the remaining limited areas of disagreement presently pending before Magistrate Judge Sharp for resolution), this data will be limited only to those persons who need to see it to do the economic studies: the outside, retained economists. These economists have no commercial or proprietary interest whatever in the information, and each has taken an affidavit guaranteeing to maintain the information in confidence.

Respectfully, the "conflict" posited by MDK in its petition is a chimera of its imagination. There is neither logic, nor law, in support of the proposition that this Court should depart from its long-standing rule of appealability to

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[2]MDK purchases its inventory from abroad, and therefore, need only show its invoice costs as to the cost component of the subpoena.

vastly expand federal appellate jurisdiction every time a business is subpoenaed to produce its records.

CONCLUSION

For all of the foregoing reasons, the Petition for Writ of Certiorari should be declined.

Respectfully submitted,

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